

Macroeconomic activity, objectives and policy

IB DP Economics HL Unit 3 sections 3.1-3.7 full package

1. Unit 3 at a glance

Unit 3 at a glance

IB Economics HL Unit 3.1-3.7: measuring economic activity, AD/AS with the multiplier, the macroeconomic objectives with inequality and poverty, monetary, fiscal and supply-side policies - on the shared model $AD\ P = 90 - Y/2$ vs $SRAS\ P = 20 + Y/2$ at (70, 55).

Must-know: real GDP $112/108 = 103.7$ per head 101.7; $AD = C + I + G + (X - M) = 100$ with 60/20/20/0; multiplier $k = 1/(1-MPC) = 2$ at MPC 0.5 so 30bn becomes 60bn; CPI $109 = 9$ percent; LRAS 85 to 105 cuts prices 47.5 to 37.5 with rising output.

2. Measuring economic activity

Measuring economic activity

GDP is final output within a country - by output, income or expenditure, which agree in principle. Nominal turns real through the deflator ($112/108 = 103.7$); per head divides by population. Welfare limits: non-market activity, distribution, the environment, price differences - hence the HDI and other complements.

The business cycle - recovery, boom, recession, trough - shows short-run variation around the trend; each stage moves growth, inflation and unemployment together.

3. AD, AS and the multiplier

AD, AS and the multiplier

$AD = C + I + G + (X - M)$ with each component's shifter; price-level changes move along, component changes shift. SRAS rises with prices; the long run divides schools - Keynesian flat-then-vertical, monetarist vertical at the natural level, where demand management moves only prices.

The multiplier: $k = 1/(1-MPC) = 1/MPW$. MPC 0.5 gives $k = 2$ (30bn to 60bn); MPC 0.8 gives $k = 5$. On the model, a 15-injection moves (70, 55) to (85, 62.5) - output with inflation; crowding out is the standing critique.

4. Objectives, inequality and poverty

Objectives, inequality and poverty

Low unemployment (ILO measure; cyclical, structural, seasonal, frictional, voluntary - and the HL natural rate); low stable inflation (CPI basket 109 = 9 percent; demand-pull vs cost-push); the Phillips short-run trade-off joins them.

Inequality and poverty (3.4): the Lorenz curve and Gini - quintiles 5/10/15/20/50 give 0.40; absolute vs relative poverty; redistribution buys equity at possible incentive cost.

5. The three policy families

The three policy families

Monetary: the interest-rate mechanism - dearer borrowing cuts C and I , cools inflation; QE at the zero bound; the India 6.5-to-6.25 cut shows a 25-point easing. Fiscal: spending and taxation through the multiplier; structural vs cyclical deficits; automatic stabilisers.

Supply-side shifts LRAS right: education, infrastructure, deregulation, privatisation, lower work/investment taxes, labour reform - LRAS 85 to 105 cuts prices 47.5 to 37.5 with output rising: growth with disinflation, the contrast the IB wants drawn.

Check yourself

Check yourself

GDP three ways; the deflator arithmetic; welfare limits; the cycle's stages.

AD components and shifters; the two long-run AS views; the multiplier with both MPC cases.

The objectives with the CPI basket and the Phillips trade-off; Lorenz/Gini 0.40.

Monetary transmission with QE; fiscal multipliers and stabilisers; the six supply-side instruments with the LRAS contrast.